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Accounting | Tax | Business Consulting

November 2017

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**2017**

Guide to Valuation  
of Personal Use of  
Employer-Provided  
Vehicles and Other  
Select Taxable  
Fringe Benefits

## 2017 Guide to Valuation of Personal Use of Employer-Provided Vehicles and Other Select Taxable Fringe Benefits

### Changes to note:

The automobile mileage rates are:

- 53.5 cents for 2017
- 54.5 cents for every mile of business travel driven, up 1 cent from the rate for 2017

The FICA limit on wages including taxable fringe benefits:

- \$ 127,200 in 2017
- \$ 128,400 in 2018

Please review the guidelines in time to prepare the 2017 wage reporting statements. Remember that your company must comply by December 31, 2017. If you have any questions or require further assistance, please contact BlumShapiro at 866.356.BLUM.

*There are model policy statements, employee notification forms and an annual lease value method worksheet after page 6.*

### General Rules

If an employer provides an employee with the use of a company owned or leased vehicle, the value of the employee's personal use must be added to the employee's gross income as a taxable fringe benefit. The value of personal use is excluded from taxable income only if:

1. The employer-provided vehicle is used 100% for business reasons and a signed employer-employee policy of "no personal use" is in place.

**-OR-**

2. As a working condition fringe benefit for a full-time automobile salesperson who uses a demonstration vehicle for qualified use, provided certain conditions are met. The demo must be provided primarily to facilitate the salesperson's performance of services for the dealership, and there must be substantial restrictions placed on the personal use of the demo. Certain substantiation requirements must also be satisfied. Please contact a member of our dealership services group if you would like help implementing a qualified demo plan.

## Valuation Methods

The amount includable in the employee's gross income is generally the value of the availability of the vehicle to the employee. Under this general valuation principle, the fringe benefit is the amount a person would pay to an outside third party to obtain the use of the auto. In the instance of a leased vehicle, the fringe benefit income that may be reported is the actual cost of the lease, including sales, personal property taxes and any other employer-paid expenses. However, three alternative methods of valuation are available:

1. Commuting value method
2. Cents per mile method
3. Annual lease value method

The same method need not be used for all vehicles. However, once a method is adopted for a particular vehicle, it must continue to be used for all later tax years. The employer must notify the employee of the valuation method used, the substantiation requirements and the effect of failing to comply with the substantiation requirements by the latter of January 31 (of the year the benefit is being provided) or 30 days after the benefit is first provided.

There is a special rule that allows employers to compute personal use income from November 1 of the prior year to October 31 of the current year (or any other 12-month period ending in November or December).

The employer may change the accounting period (without approval of the IRS) for personal use of autos for an appropriate administrative reason. If a special accounting period is used, the employer must notify affected employees no earlier than the date of their last paycheck for the calendar year and no later than when Forms W-2 are distributed. Notification to the IRS is not required.

## Valuation Methods Described

**Commuting value method** - A signed employer/employee policy of "no personal use except commuting" results in a taxable fringe benefit of \$1.50 per one-way commute. A daily round-trip commute results in a \$3.00 per day taxable fringe benefit. No adjustment is made for fuel used. This method is not available for vehicles used by control employees (shareholders owning 1% or more of the entity, officers in 2017 whose compensation is at least \$105,000, or employees in 2017 whose compensation is at least \$ 215,000). The dollar values used to define "control employees" for this purpose will each be raised by \$5,000 in 2018.

**Cents per mile method** - May be used if the vehicle is used primarily by an employee, driven at least 10,000 miles a year, and the vehicle's original value does not exceed \$15,900 for a passenger automobile and \$17,800 for a truck or van if made available to the employee in 2017. Personal use is calculated at:

- 53.5 cents per personal mile for 2017
- 54.5 cents for every mile of business travel driven, up 1 cent from the rate for 2017

If fuel is not provided by the employer, the rate per mile may be reduced by 5.5 cents.

**Annual lease value method** - The annual lease value table is used. The annual lease value method may only be used for employer-provided automobiles while the other two alternative methods are available for all vehicles.

## Substantiation Requirements

No deductions are allowed for any vehicle expenses unless there is adequate evidence. Your company's tax return should provide information detailing each vehicle's business miles, personal miles and commuting miles. You should also obtain, for your own records, a list of the employee's business contacts made and the nature of business conducted when the auto is used for business purposes. As an employer providing vehicles to employees, you can meet the recordkeeping requirements in the following ways:

- Retain a copy of business mileage records maintained by each employee and inquire of employees as to commuting and personal mileage.
- Obtain a statement from each employee detailing business, commuting and other personal miles. It should be noted that business miles include commuting from home to a temporary work location.

If you prefer to avoid the administrative burden of obtaining the personal use percentages of any or all employees, you may include 100% of the auto's use value in the employee's gross income. The affected employees may then take a deduction on their individual tax returns for the business use of the vehicle. Their business use is computed by multiplying their business percentage by the total value included in their wages. This deduction is claimed on the employee's Form 2106 attached to their Federal Form 1040. However, this method is generally not beneficial to employees. All except "statutory employees" are subject to the 2% of Adjusted Gross Income limitation, which, in most cases, eliminates the benefit of any deduction.

## Other Taxable Fringe Benefits

If a corporation pays a personal expense (vs. a business expense) of an employee, that payment generally constitutes income (or a loan) to the employee. This income is subject to federal and state income tax, Social Security taxes and state unemployment tax.

Common examples of other taxable fringe benefits are:

- Accounting fees paid for the preparation of individual income tax returns (of either owners or employees).
- Legal fees paid outside of a qualified employee benefit plan.

- Life insurance premiums paid for other than group-term coverage under \$50,000.
- Expenses paid for personal entertainment.
- Allowances for business expenses which are not paid under a direct reimbursement (“accountable”) plan.
- Health insurance premiums paid by an S corporation on behalf of a greater than 2% shareholder.  
Please note that this income is subject to income tax withholding but not payroll taxes.

## Reporting Taxable Fringe Benefits

Taxable fringe benefits must be reported on Forms W-2, 941(or 944), 940 and the state unemployment tax return under the category of “Wages, Tips, and Other Compensation”. This amount is reported and taxed as “Social Security Wages” if the employee is under the FICA wage limit. These limits are \$127,200 for 2017 and \$128,400 for 2018. The amount is also reported and taxed as “Medicare Wages” which has no wage limit.

More specifically, on Form W-2, taxable fringe benefits must be included in boxes 1, 5 and possibly 3. This reporting may be done on a supplemental Form W-2 or may be combined with the employee’s regular wages on a single W-2. The lease value of a vehicle provided to your employee and reported in box 1 must be reported in box 14 or in a separate statement to your employee. No other taxable fringe benefits are required to be separately reported in box 14.

## Withholding on Taxable Fringe Benefits

### Withholding of Federal Income Taxes and Social Security Taxes

An employer may elect, for income and employment tax purposes, to treat taxable fringe benefits as paid per pay period, quarterly, semi-annually or annually. The benefit is treated as cash wages paid on the date(s) selected, and the general withholding methods and deposit rules must be followed. The same election need not be made for each employee. The IRS does not have to be notified of the election, and the election can be changed at any time. If the employee desires, they may have federal income tax withheld at the rate currently applicable to supplemental wages (25% for 2017).

Withholding and quarterly payroll tax reporting may be done in any quarter during the year, but must be done by December 31, 2017. Employers can include the personal use value in the last pay period of the year and withhold 25% federal income tax and the applicable state income tax, as well as 6.2% FICA tax (where applicable) and 1.45% Medicare tax from those paychecks. In addition to withholding Medicare tax at 1.45%, you must withhold a 0.9% Additional Medicare Tax from wages you pay to an employee in excess of \$200,000 in a calendar year.

## **Election Not to Withhold Federal Income Taxes**

An employer may elect not to withhold federal income taxes on the taxable fringe benefits, but the employer must still withhold FICA tax (if the employee has not yet reached the FICA limit) and Medicare tax on the full amount. There is no employer share of Additional Medicare Tax. The same election need not be made for each employee. The IRS does not need to be notified of the election, and the election can be changed at any time. If the employer makes the election not to withhold, he must give the employee written notice of his intent not to withhold federal and state income taxes on the value of personal use. This notice must be given to the employee by January 31, 2018 for 2018. For 2017, if the employer failed to make this election by January 31, 2017, he/she must withhold taxes as described in the "Withholding of Federal Income Taxes and Social Security Taxes" section above.

If no withholding is made in cases in which FICA and/or Medicare tax withholding is required, wages must be "grossed up" to include as compensation the Social Security taxes paid for the employee by the employer. To gross up wages, divide the taxable fringe benefit(s) by .9235 (if subject to full FICA tax) or by .9855 if subject only to the Medicare tax. If the employee has wages in excess of \$200,000, divide the taxable fringe benefit by .9765. The result is a higher amount which then becomes the taxable fringe benefit reported on Forms W-2, 941, 940 and the state unemployment tax return.

*This is intended as a guide only. Please contact your professional tax advisor with any specific questions you may have or contact a member of BlumShapiro's Tax Department at 866.356.BLUM or info@blumshapiro.com.*

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Company Name

**Policy Statement on Prohibited Personal Use of Company Owned Vehicles**

TO: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

DATE: \_\_\_\_\_

SUBJECT: The Following Vehicles:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

1. The above-listed vehicles are either owned or leased by the Company and are provided solely for business use.

2. When the vehicles are not being used for business purposes, they must be kept on Company premises except when they are temporarily located elsewhere for repairs, etc.

3. No employee, friend, associate or family member of any employee may use any of the above vehicles for personal use other than de minimis personal use by the employee, such as a stop for lunch between two business appointments. NO OTHER PERSONAL USE BY AN EMPLOYEE IS PERMITTED.

If the above conditions are met, the employee need not keep records for the use of the vehicle.

Contact \_\_\_\_\_ for further accounting details.

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Company Name

**Policy Statement on Prohibited Personal Use of  
Company Owned Vehicles Other Than Commuting**

TO: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

DATE: \_\_\_\_\_

Under federal tax law, an employer may provide an employee with a vehicle for use in the employer's trade or business under a written policy which prohibits personal use of the vehicle other than commuting – the "Commuter Rule." If such policy is properly enforced, the business use of the vehicle need not be substantiated with a diary, log, etc. Records should be kept to show that the vehicle is being used for commuting purposes only.

You have been provided with a vehicle for use under the "Commuter Rule" and are subject to the following conditions:

1. The Company owns or leases the vehicle which is provided to you for business use.
2. As an employee you are required to commute to and from work in the vehicle for the following business reason(s):

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

3. Neither you, nor any friend, associate or member of your family may use the vehicle for personal use, other than de minimis personal use by you, such as a stop for a personal errand on the way home.
4. You are not an officer, director, 1% owner or an employee whose compensation exceeds \$215,000 in 2017 or \$220,000 in 2018. This provision does not apply if the vehicle is other than an automobile (i.e., truck, van or other vehicle equipped with racks or tools, or designed for other specialized purposes).



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5. The following amounts shall be included in your employee gross income, subject to withholding, to the extent that such amounts are not reimbursed to the Company: \$1.50 per one-way commute, and \$3.00 per round-trip commute.

Contact \_\_\_\_\_ for further accounting details.

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Company Name

**Notification to Employees to Use a Special Valuation Method for Determining the Taxable Amount of Personal Use of Company Owned Vehicle**

TO: \_\_\_\_\_

DATE: \_\_\_\_\_

The value of your personal use of a company-owned vehicle in excess of the amount you pay for that use is a taxable fringe benefit. Regulations permit an employer to elect the use of a special valuation method checked below for determining the value of the personal use of your employer-owned vehicle.

\_\_\_\_\_ 1. Commuting Value Method

\_\_\_\_\_ 2. Cents Per Mile Method

\_\_\_\_\_ 3. Annual Lease Value Method

\_\_\_\_\_ 4. We will choose between methods \_\_\_\_\_ and notify you at a later date.

You are required to substantiate your business use of the company owned vehicle. This can be done with a written auto log, diary or other written records such as entries in a personal calendar. You will need to submit your records or a statement showing total business, commuting and other personal miles when requested (at least annually).

If you do not substantiate your business use, 100% of your vehicle use may be treated as personal use, the value of which will be included in gross wages on your Form W-2.

Contact \_\_\_\_\_ for further accounting details.

Please sign and date this notice and return it to: \_\_\_\_\_  
to acknowledge receipt.

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Employee Signature

Date

## Annual Lease Value Method

1. Determine the fair market value of the automobile as of the first date it was made available for the personal use to any employee. If the vehicle is owned or leased for more than four years, the fair market value is redetermined (as reported by a nationally recognized pricing source) as of the first January 1 following the fourth full year the vehicle is owned and will remain in effect for four years. For example, a vehicle purchased in February 2012 would need to be revalued on January 1, 2017.
2. Then use the annual lease value (ALV) table to determine the corresponding ALV (See table on page 14).
3. Multiply the ALV by the employee's personal use percentage.
4. Additional adjustments may be necessary if the vehicle was only used for part of the year or if fuel was provided by the employee.
5. If there are no cash wages from which to withhold FICA taxes, you must gross up the wages to add employee FICA taxes to the taxable fringe benefit.

Employee: \_\_\_\_\_

Personal Miles: \_\_\_\_\_

Year, Make and Model of Vehicle: \_\_\_\_\_

Total Miles: \_\_\_\_\_

### Computational Worksheet

Computation of the personal use value of a business automobile using the ALV method:

1. FMV of vehicle. \_\_\_\_\_
2. ALV based on #1 (see ALV Table). \_\_\_\_\_
3. Personal use percentage (personal miles \_\_\_\_/total miles). \_\_\_\_\_
4. Multiply line 2 by percent on line 3. \_\_\_\_\_
5. Portion of year available (\_\_\_\_ days available/365= \_\_\_\_%). \_\_\_\_\_
6. Personal portion of ALV. Multiply line 4 by percent on line 5. \_\_\_\_\_
7. Fuel paid for by employer. Use actual value to employee or (5.5 cents x \_\_\_\_\_ personal miles) \_\_\_\_\_
8. Tentative taxable fringe benefit – Add lines 6 and 7. If FICA tax is withheld from other cash wages, stop here. If not, complete line 9. \_\_\_\_\_

9. Gross up for FICA - divide line 8 by .9235 if employee wages are not over \$ 127,200 or by .9855 if employee wages are over \$127,200 but below \$200,000 or by .9765 if employee wages are over \$200,000 for 2017. The result is the taxable fringe benefit in 2017.

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NOTE: This worksheet can be also be used to compute the taxable fringe benefit during 2016. In that case, replace the 2017 Social Security taxable wage limit of \$127,200 with the 2016 amount of \$118,500 in the instruction for line 9.

The Social Security taxable wage limit increases to \$128,700 for 2018.

## Annual Lease Value Table

(1)	(2)
<i>Automobile Market Value</i>	<i>Annual Lease Value</i>
\$ 0 - 999	\$ 600
1,000 - 1,999	850
2,000 - 2,999	1,100
3,000 - 3,999	1,350
4,000 - 4,999	1,600
5,000 - 5,999	1,850
6,000 - 6,999	2,100
7,000 - 7,999	2,350
8,000 - 8,999	2,600
9,000 - 9,999	2,850
10,000 - 10,999	3,100
11,000 - 11,999	3,350
12,000 - 12,999	3,600
13,000 - 13,999	3,850
14,000 - 14,999	4,100
15,000 - 15,999	4,350
16,000 - 16,999	4,600
17,000 - 17,999	4,850
18,000 - 18,999	5,100
19,000 - 19,999	5,350
20,000 - 20,999	5,600
21,000 - 21,999	5,850
22,000 - 22,999	6,100
23,000 - 23,999	6,350
24,000 - 24,999	6,600
25,000 - 25,999	6,850
26,000 - 27,999	7,250
28,000 - 29,999	7,750
30,000 - 31,999	8,250
32,000 - 33,999	8,750
34,000 - 35,999	9,250
36,000 - 37,999	9,750
38,000 - 39,999	10,250
40,000 - 41,999	10,750
42,000 - 43,999	11,250
44,000 - 45,999	11,750
46,000 - 47,999	12,250
48,000 - 49,999	12,750
50,000 - 51,999	13,250
52,000 - 53,999	13,750
54,000 - 55,999	14,250
56,000 - 57,999	14,750
58,000 - 59,999	15,250

- For new leased vehicles, 92% of the manufacturer's suggested retail price, plus sales tax and title fees, may be used for vehicle value.
- For vehicles having a fair market value of more than \$59,999, the annual lease value equals .25 x the fair market value of the automobile + \$500.

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Company Name

**Notification to Employees of Election Not to Withhold Income Taxes on Personal Use of Company Owned Vehicle**

TO: \_\_\_\_\_

DATE: \_\_\_\_\_  
(Not later than January 31, 2018)

FOR YEAR ENDING: December 31, 2018

Generally, you are subject to Federal and State income tax withholding on the personal use value of a company owned vehicle. Employers are allowed the option not to withhold federal taxes on this value. We are still required, however, to include this taxable fringe benefit on your Form W-2.

This is your notification that the Company is electing not to withhold federal or state income taxes on the personal use value of a company-owned vehicle. We are still required to withhold Social Security and Medicare taxes on this value, however, and will continue to do so. To avoid having to pay additional taxes due when you file your income tax return, you may wish to amend your Forms W-4 and State Withholding Certificate to provide additional withholding. Alternatively, you may wish to make estimated tax payments to the IRS and your resident state.

Contact \_\_\_\_\_  
for further accounting details.

Please sign and date this notice and return it to: \_\_\_\_\_  
to acknowledge receipt.

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Employee Signature

Date

\*This notice must be given to the employee by January 31, 2018 for calendar year 2018 or within 30 days after a vehicle is first provided to the employee in 2018, if later.